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TAGS: [ETRD](#) [EFIN](#) [PREL](#) [ECON](#) [WTRO](#) [KS](#)

SUBJECT: G20 DEMARCHE ON REJECTING PROTECTIONISM: KOREA
SHARES U.S. CONCERNS, SUGGESTS CREATION OF A NEW G20
WORKING GROUP TO MONITOR

REF: STATE 125609

Classified By: ECONOMIC MINISTER COUNSELOR ANDREW QUINN.
REASONS 1.4(B) AND (D).

¶1. (C) Summary. On December 18, EMIN discussed U.S. concerns about recent protectionism measures by some G20 countries with Deputy Trade Minister Ahn Ho-young, Korea's sherpa for the November 15 G20 financial summit (Econoff had previously delivered demarche talking points to Korea's Sous-sherpa for the G20 summit, Lee Hyung-jon, on December 2). Ahn explained he had recently discussed these U.S. concerns with U.S. Sherpa Dan Price. Korea shared U.S. concerns, but had not heard back from ROK embassies in the countries discussed with details on these measures. To address these concerns about protectionism, in a recent G20 conference call, the ROKG had proposed the creation of a fifth G20 working group to address protectionism and macroeconomic coordination (in addition to the four existing working groups on financial regulatory issues), arguing that a new working group would be the best way to discourage G20 members from imposing new trade restrictions by obligating them to provide notification and respond to inquiries from other G20 members (as well as provide a forum for exchange of detailed information on macroeconomic measures each G20 member adopted).

¶2. (C) Summary continued: Ahn said the recent G20 conference call (in which he regretted not participating), the general view seemed to be to leave these two key issues up to the G20 Finance Deputies to discuss, but Korea continued to believe the problem of protectionism needed a more systemic G20 fix. Ahn had spoken with the UK, France and Germany, and knew they were unenthusiastic (in part, he said, because he felt they wanted to limit the G20's remit). Ahn said his discussions

with Australia led him to think Australia could be supportive of the proposal, but disinclined to take the lead. He also mentioned he would likely seek support from Japan, though not from China, which saw any discussion of macroeconomic coordination as an attack on its own policies. Ahn acknowledged that if the G20 had made a preliminary decision to handle these issues at the finance deputies level, it would be hard to turn that around, but he hoped the U.S. would consider whether the proposal made sense, and said that U.S. endorsement could turn the debate around. Ahn expressed concern that European members of the G20 seemed a little uncomfortable that the quasi-institutionalization of the G20 would come at the expense of the G8. End Summary.

Initial Demarche to Korea's G20 Sous-Sherpa

13. (C) On December 2, Econoff met with Korea's Sous-sherpa for the November 15 G20 financial summit, Lee Hyung-jon, Director of MOFAT's Economic Organizations Division and delivered reftel demarche. Lee thanked Econoff for the information, and noted that Korea was deeply concerned about the prospect of a global economic downturn leading to an increase in protectionist measures. Lee said he would seek additional information on these measures from Korea's embassies in those countries. Econoff noted that a timely response would be helpful in trying to combat nascent protectionist moves. Lee agreed, and said he would remain in touch as Korea considered its response.

14. (C) On December 4, Lee phoned Econoff and explained that

Deputy Trade Minister Ahn Ho-young, who served as Korea's Sherpa for the G20 Financial Summit, was deeply interested in this issue and had asked for any additional information that was available about new protectionist measures being implemented or contemplated by any of the G20 countries that issued the Declaration of the Summit on Financial Market and the World Economy in Washington. Econoff agreed to provide any additional information as it became available.

Korea's Sherpa Proposes a New G20 Working Group

15. (C) On December 18, EMIN followed up with a call on MOFAT DepMin for Trade Ahn Ho-young to reiterate U.S. concerns about the protectionist measures some countries had taken since the G20 summit, and to ask if Korean thinking on this issue had evolved since the initial demarche two weeks earlier. Ahn said he was aware of U.S. concerns, and had recently discussed them in a phone call with U.S. Sherpa (and Assistant to the President for International Economic Affairs) Dan Price, who had cited three specific examples of recent protectionist measures by G20 countries: auto tariff increases by Russia; import duties on steel by India; and non-tariff measures by Indonesia. EMIN mentioned concerns about Brazil and Argentina agreeing to sponsor an increase in Mercosur's common external tariff on a number of products. Ahn said Price had offered to send a second memo on the matter, and Ahn looked forward to receiving it.

16. (C) Ahn said that Korea shared U.S. concern regarding these protectionist measures, and was still trying to obtain further information from ROK embassies in those countries. He also asked if the U.S. was demarching other G20 partners besides Korea to express these concerns; EMIN responded that the U.S. was demarching about ten like-minded G20 members in Asia, Europe and North America. That said, the U.S. felt Korea could play a special role given President Lee's intervention in the G20 summit, widely reported in the Korean media, calling for a standstill on new trade and investment measures.

17. (C) Ahn explained that the ROKG believed the commitments to refrain from imposing new protectionist trade measures and to coordinate macroeconomic policies were a key outcome of the November 15 summit, and warranted follow-up to ensure

they were honored. To that end, the ROKG was advocating the creation of a fifth G20 working group (to add to the four initially created to look at financial regulatory issues), as a structural means of addressing macroeconomic cooperation and limiting protectionism measures. The ROKG had proposed this in a recent G20 conference call -- a new working group that would serve, inter alia, as a point of notification and a point of inquiry on trade restrictions -- but had encountered some opposition. Opponents argued that while financial regulatory issues were appropriately handled by technical experts (at the working group level), no such expertise was needed to discuss trade restrictions (which, it was said, were clear-cut) or coordinate on macroeconomic policy (where, it was said, it was easy to track other countries' press statements on macro policy); therefore, they argued, those two issues should appropriately be addressed at the G20 finance deputies level. The ROKG, however, thought that creation of a working group to monitor trade restrictions would be the best way not just to circulate useful, detailed information, but also to discipline the process: an obligation to notify the G20 could help

discourage countries from imposing such measures, as would the obligation to respond to inquiries from other G20 partners. This, Ahn said, would be a much more effective means of combating protectionist impulses than trying to cobble together ad hoc coalitions every time a new issue arose. Frankly, Ahn said, some countries might be reluctant to challenge other countries' protectionist measures unless an agreed forum, like a working group, were provided for doing so. The point of notification/point of inquiry format would also be a good way to ensure that countries could get useful information about each others' macroeconomic policies.

Finally, Ahn said, he thought a working group on trade protectionism and macroeconomic coordination would provide a good focus on near-term challenges facing the G20, to balance the longer-term work being done in the four working groups focused on financial markets reform. In their G20 troika meetings, Ahn said, Brazil, the UK and Korea continued to review the utility of any additional working groups.

18. (C) Ahn regretted that he himself had not been able to participate in the G20 call in which this proposal for a fifth working group was discussed -- he feared Korea's representative had not explained the proposal as effectively as he might have. Ahn had traveled to Europe to discuss this issue in London, Paris and Berlin, and in using virtually identical points they each explained they considered consultation at the finance deputy level to be sufficient. The British sherpa explained that PM Brown viewed the commitments to macroeconomic coordination and to refrain from protectionism as two of the three meaningful outcomes of the November 15th G20 summit (the third being the commitment to financial market reforms), but he thought they were too important to be handled by G20 working groups (a position Ahn evidently found puzzling). Ahn also spoke with Australia's Sherpa, who understood the rationale for establishment of a fifth working group, but felt that it had already been decided to work on these issues at the finance deputy level; Ahn felt Australia could be supportive of the notion if it was revisited, but seemed disinclined to take the lead. Ahn mentioned he was likely to call Japan to seek their support. Given Chinese concern that any discussion of macroeconomic coordination was a veiled attack on Chinese policies, he thought China unlikely to be supportive of a G20 working group to look at those issues, and was unlikely to seek China's support.

19. (C) Ahn acknowledged that if the G20 felt the decision had been made on the conference call to handle these two issues -- protectionism and macroeconomic coordination -- at the finance deputies level, it probably would be hard to turn that around. That said, he remarked, the U.S. played a special role in these debates, both because of its stature in the global economy and its position as host of the Washington G20 summit. Ahn hoped Washington would consider if it might support continuing the debate on a fifth working group, and

endorse such an initiative as the best way to respond to the issue of new trade barriers by countries that had endorsed the G20 declaration.

Korea Committed to G20 Process, but
Concerned Europe is Trying to Limit G20 Agenda

¶10. (C) Turning to the G20 process generally, Ahn said the ROKG remained strongly committed to it, and to its responsibilities as a G20 troika member. Ahn remarked that

some Korean officials felt the Europeans were trying to limit the G20 agenda (specifically excluding all discussion of macroeconomic issues) in order to ensure the G20 process did not become a rival to the G8. Ahn said European members of the G20 seemed a little uncomfortable that the quasi-institutionalization of the G20 would come at the expense of the G8. That said, Ahn said it was his personal opinion that Italy, as 2009 G8 host, seemed more concerned about this than the other Europeans in the G20.

¶11. (C) At a separate meeting on December 19, the Prime Minister's Chief of Staff, Kwon Tae-shin (until September Korea's Ambassador to the OECD), echoed these concerns to EAP/K Director Tong and EMIN. The Europeans, Kwon said, wanted to use the G20 process to re-fight battles from the 1940s over the Bretton Woods institutions. Korea's position, he continued, was closer to that of the United States -- Korea wanted to reform those regulations that had not prevented the recent financial turmoil, but did not think it was necessary or appropriate to try to fundamentally re-shape the global economy. Kwon urged close bilateral cooperation between the U.S. and Korea as the G20 process moved forward.
STEPHENS